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Viewing cable 06BRATISLAVA501, SLOVAK GOV'T AIMS TO REPURCHASE TRANSPETROL

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Every cable message consists of three parts:

- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
- The bottom box presents the body of the cable. The opening can contain a more specific subject, references to other cables ([browse by origin](#) to find them) or additional comment. This is followed by the main contents of the cable: a summary, a collection of specific topics and a comment section.

To understand the justification used for the classification of each cable, please use this [WikiSource](#) article as reference.

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Reference ID	Created	Released	Classification	Origin
06BRATISLAVA501	2006-06-21 16:00	2011-08-30 01:44	CONFIDENTIAL	Embassy Bratislava

Appears in these articles:

<http://www.mcclatchydc.com/2011/05/16/114269/wikileaks-cables-show-oil-a-major.html>

VZCZCXRO6385
PP RUEHDBU RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHSL #0501/01 1721600
ZNY CCCCC ZZH
P 211600Z JUN 06
FM AMEMBASSY BRATISLAVA
TO RUEHC/SECSTATE WASHDC PRIORITY 9980
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 BRATISLAVA 000501

SIPDIS

SIPDIS

E.O. 12958: DECL: 06/21/2016
TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [PGOV](#) [LO](#) [RS](#)
SUBJECT: SLOVAK GOV'T AIMS TO REPURCHASE TRANSPETROL
PIPELINE

REF: A. BRATISLAVA 494

[1B.](#) VALLEE/PEKALA EMAILS
[1C.](#) WARSAW 1167
[1D.](#) VILNIUS 512

Classified By: Ambassador Rodolphe M. Vallee for Reasons 1.4 (B) and (D)
)

¶11. (C) Summary - The Slovak government is negotiating with Yukos to re-purchase the 49 percent stake in the oil pipeline that was originally sold to Yukos in 2002. Economic Minister Jirko Malcharek, who has the lead in the negotiations, is attempting to finalize an agreement before the current government's mandate ends in the coming days or weeks.

Although the Russian oil company Russneft had an agreement with Yukos Finance to buy the 49 percent stake in February for USD 103 million, Slovakia maintains veto authority over any deal for the Yukos stake, and has used this power to stop the pending sale to Russneft. In addition to the Russians, who remain interested in the Transpetrol stake despite the recent rejection, Polish oil company PKN Orlen and a possible consortium of U.S. equity investors are also pursuing a deal. A non-Russian investor would be more inclined to utilize the pipeline's full capacity through a connection to the Odessa-Brody pipeline and Caspian light crude. End Summary.

TRANSPETROL IS STILL UP FOR GRABS

¶12. (C) Yukos Board Chairman Viktor Gerashchenko announced two weeks ago that the company had failed to sell its 49 percent stake, which includes management control, of the Slovak oil pipeline firm Transpetrol to Russian oil firm Russneft. Yukos Finance, a Yukos subsidiary that is based in the Netherlands, had originally purchased the 49 percent stake for USD 74 million in 2002. Russneft reached an agreement in February with Yukos Finance to buy the stake for USD 103 million. The Slovak Anti-Monopoly Office approved the sale to Russneft on May 19. The Slovak government, led by the Ministry of Economy, maintains veto authority over any sale of the Yukos stake until April 2007 and has not yet approved the Russneft deal.

¶13. (C) The Transpetrol pipeline system is a part of the Druzba pipeline and runs 515 km from the Ukrainian border in the east to the Czech Republic in the west. The pipeline has branches to the Slovnaft refinery in Bratislava and refineries in the Czech Republic, as well as a connection to the Adria pipeline system running south through Hungary into Croatia. The pipeline currently has a throughput capacity of 20 million metric tons per year (Mta), but has historically been operating at less than half of this amount, approximately 10.7 million Mta of heavy crude from western Siberia. In 2005, 5.57 million Mta went to the Bratislava Slovnaft refinery owned by the Hungarian energy company MOL, and 5.04 million Mta went to Czech refineries (4.26 million Mta went to Ceska Rafinerska). This output would increase by another 2 million Mta if a planned Bratislava-Schwechat extension to an OMV refinery in Austria were to become operational. (Note: Environmental issues and Yukos problems have put this project on hold for the time being.)

¶14. (C) According to an article in the daily SME on June 16, Russian Ambassador to Slovakia Alexander Udalcov said that Russia remains interested in Yukos' stake and Russian companies were not out of the running for the deal. It is widely believed that under Russian control all of the oil traveling the pipeline would continue to be heavy crude from western Siberia. A non-Russian investor, on the other hand, would be more inclined to diversify to other sources. The main proposal involves connecting the Odessa-Brody-Druzhba route to transit Caspian light-crude oil through Ukraine's Odessa-Brody oil pipeline and along the southwestern branch of the Druzhba pipeline for delivery to refineries in the Czech Republic, and eventually Austria and southern Germany. While this would require a significant investment to upgrade Transpetrol's transit capacity from 20 to 28 Mta, it could result in additional transit volumes of more than 17 Mta through the Transpetrol pipeline system.

LAME DUCK MINISTER CONTINUES TO PURSUE A DEAL FOR SLOVAKIA

¶ 15. (C) Minister of Economy Jirko Malcharek has taken the GOS lead in negotiations with Yukos. According to his top advisor and MOE spokesman, Robert Beno, Malcharek's top priority in his remaining days in office is to cancel the deal with Russneft so that the Slovak government can repurchase the Yukos stake in Transpetrol. (Note: Malcharek's political party, Nadej or "Hope", did not meet the five percent threshold in last Saturday's parliamentary elections and will therefore not be a part of the next government.) 100 percent GOS ownership of Transpetrol would not only allow Slovakia to diversify supply, but it would also help towards meeting the EU goal of having at least 90 days of reserves. One expert told us that the oil in the pipeline alone could be counted as 10 to 15 days of reserve supply. Transpetrol also owns several back up tanks that could be used for this purpose, and would save the government from having to build additional storage facilities. In Slovak Crowns the price of the 49 percent stake is actually less today (approx. SKK 3 billion) than the GOS sold it for in 2002 (approx. SKK 3.5 billion) due to exchange rate differences.

¶ 16. (C) According to an article in the June 21 SME newspaper, Malcharek met last Thursday (6/15) with Yukos Finance CEO Steven Theede to discuss the potential re-purchase of the 49 percent Transpetrol stake by the Slovak Government.

Malcharek said that Slovakia needed to act quickly because the Russian courts will decide on the Yukos bankruptcy in mid-July. (Note: Yukos chief Stephen Theede has argued that since the Transpetrol stake is held by Netherlands-based Yukos Finance it is not subject to the bankruptcy proceedings in Moscow. This is the same entity that recently sold Lithuania's Mazeikiu Nafta oil refinery to PKN Orlen, as outlined in Reftel D.) The SME article also quotes Malcharek as saying that he is not sure that Yukos has actually canceled its deal with Russneft despite the recent statements by Yukos' Board Chairman.

¶ 17. (C) Malcharek cannot finalize arrangements with Yukos on his own and would eventually need the support of the government to approve any deal. We heard before the June 17 election from sources in the Prime Minister's office that the current government could take a final decision on the Transpetrol sale during the interim period between the election and formation of a new government, especially if it appeared that the Prime Minister's SDKU party would not be a part of the next government (See Reftel A for the latest political developments). SDKU feels it should at least consider finalizing deals of "strategic importance" to Slovakia before turning over the reigns to a possible Smer-led government. Robert Kalinak, the vice-chair for the leading opposition party and top vote-getter Smer, told us last week that he did not expect Malcharek to take a decision in his final days on the job. Kalinak noted that Smer would prefer that the GOS buy back the shares from Yukos, which is ultimately the same goal that Malcharek says he is pursuing. Malcharek acknowledges in the SME article that although he would like to reach an agreement with Yukos in the coming weeks, ultimately the next government would finalize the deal over the coming months.

MORE THAN JUST THE SLOVAKS AND RUSSIANS ARE INTERESTED

¶ 18. (C) In addition to Russian and GOS interest in the Transpetrol stake, Polish oil company PKN Orlen is reportedly pursuing a deal for Transpetrol (Reftel B). In 2005 PKN Orlen acquired a 63 percent stake in Unipetrol, the biggest refinery and chemical company in the Czech Republic which receives two-thirds of the Transpetrol throughput. The chairman of the board at the Bratislava-based refinery Slovnaft, Marian Jusko, told us that a Polish bid could be politically problematic. Anything that makes PKN Orlen more competitive in the neighboring Czech Republic would likely

face significant opposition in both Slovakia and Hungary. Slovnaft is owned by the Hungarian oil company MOL and supplies 70 percent of the Slovak market directly or indirectly. Over the last year Russneft has become a major supplier to Slovnaft, and Russians are rumored to have close ties with the MOL leadership. MOL's influence over the deal would be strengthened if SMK, the Hungarian party, were a part of the next government.

¶ 9. (C) A U.S. company, GlobalNet Financial Solutions, has recently contacted us regarding their interest in putting together a consortium of U.S. private equity investors to make a bid for the Transpetrol stake. GlobalNet's Managing Director in Ukraine, Geoff Berlin, has been working on projects related to the Odessa-Brody pipeline for several years. Berlin had not yet presented its proposal to either the GOS or to Yukos when we spoke with them last week. A lack of ties to specific suppliers and refineries, if that is indeed the case, could be one advantage that GlobalNet brings to the table.

COMMENT

¶ 10. (C) Ambassador is scheduled to meet with Malcharek on Friday (6/23) and will have a chance to hear his plans firsthand. With the exception of the Prime Minister, MOE has kept other GOS ministries in the dark on their intentions. This seems a bit strange since a GOS repurchase of the Transpetrol stake has widespread political support (except for SMK) and increases the options for diversification of oil resources for Slovakia and the region. Such an acquisition by the GOS - which is not directly connected to competing refineries or suppliers - would be consistent with U.S. energy security goals in the region. End Comment.
VALLEE